Report

of the

Examination of

Seneca-Sigel Mutual Insurance Company

Vesper, Wisconsin

As of December 31, 1999

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May 26, 2000

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 1999, of the affairs and financial condition of

SENECA-SIGEL MUTUAL INSURANCE COMPANY
Vesper, WIsconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1995 as of December 31,1994. The current examination covered the intervening time period ending December 31, 1999, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on April 12, 1891, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Seneca, Sigel and Rudolph Mutual Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were two amendments to the articles of incorporation and no amendments to the bylaws. The articles of incorporation were changed in 1998 to include the counties of Juneau and Waupaca and in 1999 to include the counties of Langlade and Oneida.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Adams, Clark, Juneau, Langlade, Lincoln, Marathon, Oneida, Portage, Waupaca, and Wood.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of one or three years with premiums payable on the advance premium basis. Policy fees charged policyholders are retained by the company.

Business of the company is acquired through 54 agents, none of whom are directors of the company. All business written by the agents is compensated at a 15% commission rate.

The company has two employes who adjust all losses. The adjusters are paid an hourly rate and $.325 per mile for travel. Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Dale Fisher	Farmer	Wisconsin Rapids	2000
Adeline Scheunemann	Retired Farmer	Vesper	2000
Albert Heiser	Farmer	Vesper	2000
Marshal Durand	Retired	Vesper	2001
Dale Pagels	Farmer	Rudolph	2001
Carol Tomfohrde	Reception/Secretary	Vesper	2001
Donald Hahn	Farmer	Pittsville	2002
Janice Hagen	Apple Orchard Owner	Wiscons Rapids	2002
Harvey Petersen, Jr.	Farmer	Pittsville	2002

Members of the board currently receive $50 for each meeting attended and $ .325 a mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	Annual Salary
Adeline Scheunemann	President	$1,200
Harvey Petersen, Jr.	Vice-President	
Dale Fisher	Secretary/Treasurer	$1,200

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee	Rates & Research	Personnel
Albert Heiser. Chair	Dale Pages, Chair	Mike Durand, Chair
Harvey Petersen	Don Hahn	Carol Tomfohrde
Don Hahn	Janice Hagen	Albert Heiser

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1995	370,845	268,004	2,260	(14,806)	1,086,894	755,432
1996	363,118	283,952	2,310	(63,510)	1,373,282	742,182
1997	522,540	335,731	2,377	50,802	1,296,941	776,326
1998	440,262	342,672	2,385	(44,005)	1,342,251	795,252
1999	384,853	292,282	2,320	(40,434)	1,256,265	753,138

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Gross	Writings Ratios Net
1995	748,050	397,635	755,432	99%	53%
1996	849,147	476,626	742,182	114%	64%
1997	824,155	537,840	776,326	106%	69%
1998	851,557	407,362	795,252	107%	51%
1999	868,769	360,254	753,138	115%	48%

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1995	$268,004	$163,812	$370,845	72%	41%	113%
1996	283,952	185,006	363,118	78%	39%	117%
1997	335,731	185,320	522,540	64%	34%	98%
1998	342,672	189,601	440,262	78%	47%	125%
1999	292,282	176,959	384,853	76%	49%	125%

As the above table indicates, the company's surplus increased in two of the past five years with the most significant increase in 1999. Gross premiums written increased by 16% and net premiums written decreased by 10% during the same period, primarily due to an increase ceding percentage during 1999. The tables also show that the company had negative net income in four years and an increasing expense ratio.

Effective January 1, 2000, the company changed reinsurers. Under the new contract the company expects to cede less premium through the use of what is calledthe 50-foot rule, whereby buildings on any given property can be separated out based on their proximity to one another. This will allow the company to separate the larger farms into more than one risk, retaining a portion of each risk and reducing the ceding percentage. Under the previous reinsurance program, one farm was considered one risk for ceding purposes.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed that there is currently one ceding treaty. The prior ceding treaty with Wisconsin Reinsurance Corporation was terminated on January 1, 2000. The termination agreement was filed with this office.

The current ceding treaty contained a proper insolvency clause and a clause that warrantees compliance with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Rockford Mutual Insurance Company
Effective date:	January 1, 2000
Termination provisions:	As of any January 1 by either party giving at least 90 days' advance written notice.

The coverages provided under this treaty are summarized as follows:

1. Type of contract: Property Per Risk Excess of Loss

Lines reinsured:	Property Coverages
Company's retention:	$20,000 for each risk
Coverage:	<u>Part A:</u> $80,000 in excess of $20,000 for each and every loss; including loss adjustment expenses. If two or more risks are involved in one loss occurrence and two or more risks have losses above the retention, the following multiple risk provisions apply: Seneca's maximum liability is $40,000 and Rockford's is $240,000 <u>Part B:</u> $200,000 in excess of $100,000 for each and every loss; including loss adjusting expenses. If two or more risks are involved in one loss occurrence and two or more risks have losses above the retention, the following multiple risk provisions applies: Seneca's maximum liability is $200,000 and Rockford's is $600,000. Risks exceeding $300,000 are reinsured facultavely.
Reinsurance premium:	For each coverage, the sum of the immediate prior five years reinsurance recovered losses plus the current years losses, divided by subject net premiums written for the corresponding five-year period, times 100/80.

<u>Coverage A:</u>	Minimum rate:	5% of subject net premiums
	Maximum rate:	28% of subject net premiums
<u>Coverage B:</u>	Minimum rate:	2% of subject net premiums
	Maximum rate:	7% of subject net premiums

	For the initial annual period this contract is in effect, the company shall pay the reinsurer \$182,000 for Coverage Part A and \$9,360 for Coverage Part B.
Profit Sharing:	As a result of both parties to the contract agreeing to this being a minimum three year contract, the company is deemed eligible for the Partners Profit Share Program. At the end of the three-year period, "profit" shall be determined by adding up all premiums paid to Rockford Mutual minus all losses and loss adjusting expense recovered by the company, and minus an additional 10% of the reinsurance premiums for operating expenses. Ten percent of profit is credited back to the company to be applied toward future reinsurance premiums at a rate of 1/3 a year.
2. Type of contract:	Property Annual Aggregate Excess of Loss
Lines reinsured:	Property Coverages
Company's retention:	\$280,000
Coverage:	100% of annual aggregate losses and loss adjusting expenses in excess of the retention.
Reinsurance premium:	Sum of the immediate prior four years reinsurance recovered losses plus the current years losses, divided by the total of the subject net premiums written for the corresponding five-year period, times 100/80. Minimum rate: 5% of subject net premiums Maximum rate: 10% of subject net premiums For the initial annual period this contract is in effect, the company shall pay the reinsurer \$22,900.
Profit Sharing :	Same program as the one mentioned above.
3. Type of contract:	Liability Reinsurance
Lines reinsured:	Casualty Business
Company's retention:	<u>Coverage A</u> – \$1,000 for each and every loss <u>Coverage B</u> – \$ 20% of surplus or \$200,000, whichever is the lesser amount
Coverage:	<u>Coverage A</u> – 100% of each and every loss over the retention <u>Coverage B</u> – 100% of the annual aggregate retained losses and loss adjusting expense over the retention.
Reinsurance premium:	59% of the subject net premium for Coverage A and 1% of the subject net premium for Coverage B.
Profit Sharing:	As a result of both parties to the contract agreeing to this being a minimum three year contract, the company is deemed eligible for the Partners Profit Share Program. Prior to six months after the end of a calendar year, Reinsurer shall determine the Profit Share percentage for the previous calendar year; profit share 30% of the determined "profits". "Profits" are reinsurance premium paid less losses and loss adjusting expense recovered, less 25% of premium to cover reinsurance expense.

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 1999. Adjustments made as a result of the examination are noted in the section of this report captioned "Reconciliation of Policyholders' Surplus."

Seneca-Siegel Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 1999

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in company's office	$ 60			$ 60
Cash deposited in checking account	18,590			18,590
Cash deposited at interest	173,480			173,480
Bonds (at amortized cost)	555,922			555,922
Stocks or mutual fund Investments (at market)	325,045			325,045
Real estate (net of accumulated depreciation and encumbrances)	8,800			8,800
Premiums and agents' balances In Course of Collection	7,350			7,350
Premiums and agents' balances and Installments booked but deferred and not yet due	110,206			110,206
Investment income due or accrued		$6,349		6,349
Reinsurance recoverable on paid losses and LAE	723			723
Electronic data processing equipment - excluding software (cost less accumulated depreciation	4,795			4,795
Fire dues recoverable	172			172
Other Assets				
Reinsurance contingent Commission receivable	44,073			44,073
Federal income tax refund receivable	700			700
Furniture and fixtures	3,942		3,942	0
TOTALS	$1,253,858	$6,349	$3,942	$1,256,265

Liabilities and Surplus

Net unpaid losses	$ 47,117
Unpaid loss adjustment expenses	650
Commissions payable	35,552
Net unearned premiums	327,939
Reinsurance payable	81,929
Amounts withheld for the account of others	1,525
Payroll taxes payable	889
Other liabilities:	
Expense related	
Account payable	892
Accrued property taxes	584
Accrued salaries & wages	1,600
Nonexpense	
Premiums received in advance	4,450
Total Liabilities	503,127
Policyholders' Surplus	753,138
TOTAL	$1,256,265

Seneca, Sigel Mutual Insurance Company
Statement of Operations
For the Year 1999

Net Premiums and assessments earned	$384,853
Deduct:	
Net losses incurred	241,958
Net loss adjustment expenses incurred	50,234
Other underwriting expenses incurred	176,959
Total losses and expenses Incurred	469,241
Net underwriting gain (loss)	(84,388)
Net investment income:	
Net investment income earned	41,097
Total investment income	41,097
Other income:	
Policy services charges	9,239
Net investment and other income	(34,052)
Net income (loss) before policyholder dividends and before federal income taxes	(34,052)
Federal income taxes incurred	6,382
Net income (loss)	$(40,434)

Seneca, Sigel Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 1999

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

Surplus as regards policyholders, December 31, 1994		$766,815
1995		
Net income (loss)	$ (14,806)	
Net unrealized capital gains or losses	4,258	
Change in nonadmitted assets	(835)	
Change in surplus as regards policyholders for the year	(11,383)	
Surplus as regards policyholders, December 31, 1995		755,432
1996		
Net income (loss)	(63,051)	
Net unrealized capital gains or losses	47,393	
Change in nonadmitted assets	2,408	
Change in surplus as regards policyholders for the year	(13,250)	
Surplus as regards policyholders, December 31, 1996		742,182
1997		
Net income (loss)	50,802	
Net unrealized capital gains or losses	(17,397)	
Change in nonadmitted assets	739	
Change in surplus as regards policyholders for the year	34,144	
Surplus as regards policyholders, December 31, 1997		776,326
1998		
Net income (loss)	(44,005)	
Net unrealized capital gains or losses	61,480	
Change in nonadmitted assets	1,451	
Change in surplus as regards policyholders for the year	18,926	
Surplus as regards policyholders, December 31, 1998		795,252
1999		
Net income	(40,434)	
Net unrealized capital gains or losses	802	
Change in nonadmitted assets	(2,482)	
Change in surplus as regards policyholders for the year	$ (42,114)	
Surplus as regards policyholders, December 31, 1999		$753,138

Reconciliation of Policyholders' Surplus

The examination made no adjustment or reclassifications to policyholders' surplus and accounts as reported by the company in its filed annual statement. Policyholders' surplus per the December 31, 1999, annual statement and the examination is $753,138.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Corporate Records—It is recommended that the company record attendance of board members at every meeting in order to have a permanent record of each director's presence at such meetings pursuant to the duties and obligations of board members.

   Action—Compliance

2. Corporate Records–It is recommended that the company follow up on agents who do not annually submit evidence of E & O coverage of at least $300,000 and file such evidence in the company agent or agency file in accordance to the company's agent agreement.

   Action—Compliance

3. Accounts and Records-It is recommended that the company safeguard its blank check inventory by securely locking these checks in one of the company's locked fireproof filing cabinets or any other secure storage area to comply with standards of effective internal control.

   Action—Compliance

4. Invested Assets-It is recommended that the company amend its safekeeping agreement to contain the proper language for indemnification of lost securities in accordance with the provisions outlined by the NAIC Examiners Handbook

   Action—Compliance

   Net Unpaid Losses-It is recommended that each claim of loss be entered into the loss register as reported and assigned a claim number in chronological order in accordance to s. Ins 13.05 (4) (e), Wis. Adm. Code.

   Action—Compliance

5. Reinsurance Payable-It is recommended that the company report its return commission due reinsurers as a separate line item liability in the balance sheet of its annual statement in accordance with the annual statement instructions.

   Action— Not applicable

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period. During the review it was noted that the minutes of the board of directors meetings did not indicate authorizations for the purchases and sales of investments. According to s. 6.20 (6), Wis. Adm. Code, “investments acquired and held under this section shall be acquired and held under the supervision and direction of the board of directors”. Therefore, it is recommended that the company establish procedures that will enable the board of directors to routinely review investment transactions and that the minutes indicate that such discussion have taken place and whether the transactions were approved or disapproved.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employes which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity Bond	$ 100,000
Errors & Omissions	500,000
Business Owners;	
Building	107,100
Personal Property	5,000
Commercial Liability	1,000,000
Employee Liability	100,000
Professional Liability	1,000,000
Directors & Officers Liability	1,000,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. The company's in-house adjusters inspect all new business applications and inspect renewal business every three years or more often if necessary.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 1999.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computers are limited to people authorized to use them. Company personnel back up each day's work to disks and do a more complete back up once a week on to tapes. Each day's disks and the week's tapes are kept off-site.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employe, is not able to access its computer, information on its computer is lost, or the office building is destroyed, to name a few contingencies. The company has developed a disaster recovery plan. The plan does not adequately cover some of the key issues mentioned above, such as the loss of key employee or access to computer equipment. Therefore, it is recommended that the company develop a more comprehensive disaster recovery plan that would more clearly identify what would be done in case it is not able to access its computers or the office building is destroyed.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
> (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable

evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employes of the company.

The company is in compliance with these requirements.

Transition into the New Investment Rule

On January 1, 1996, the investment rule for town mutuals was amended to allow town mutuals to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$803,127
2.	Liabilities plus 33% of gross premiums written	789,821
3.	Liabilities plus 50% of net premiums written	683,254
4.	Amount required (greater of 1, 2, or 3)	803,127
5.	Amount of Type 1 investments as of 12/31/98	608,786
6.	Excess or (deficiency)	$(194,341)

The company does not have sufficient Type 1 investments.

The new investment rule prescribes that a town mutual shall divest any investment which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. Currently the company has twenty-eight investments, with a statement value of $229,124, which are not in compliance with the new investment rule. The company was granted approval by this office to hold these investments until maturity.

As part of the new investment rule, companies were required to have the board of directors adopt a written plan for a acquiring and holding investments and engaging in investment practices. The company has prepared a written investment plan that was reviewed and adopted by the board of directors.

ASSETS

Cash and Invested Cash **$192,130**

The above asset is comprised of the following types of cash items:

Cash in company's office	$ 60
Cash deposited in banks-checking accounts	18,590
Cash deposited in banks at interest	173,480
Total	$192,130

Cash in the company's office at year-end represents the company's petty cash fund.

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of seven deposits in five depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 1999 totaled $10,453 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.74% to 5.70%. Accrued interest on cash deposits totaled $1,151 at year-end.

Book Value of Bonds **$**555,922

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 1999. Bonds owned by the company are kept by one of the company's depositories under a safe keeping agreement. The prior exam resulted in a recommendation that the company amend it safekeeping agreement to contain the proper language for indemnification of lost securities in accordance with the provisions outlined in the NAIC Examiners Handbook. The company's custodial agreement was reviewed and found to be in compliance with those provisions.

Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds were not in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. The company had one corporate bond that was greater than 3% of its admitted assets. During examination fieldwork, the company instructed its broker to sell off the excess and bring the company into compliance with s. 6.20 (6)(d)(1) in regards to investment limitations.

Interest received during 1999 on bonds amounted to $38,561 and was traced to cash receipts records. Accrued interest of $5,198 at December 31, 1999, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$ 325,045**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 1999. Stocks owned by the company are held in a secured location.

The examiners physically examined stock certificates. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices.

Dividends received during 1999 on stocks and mutual funds amounted to $ 2,926 and were traced to cash receipts records. Accrued dividends of $900 at December 31, 1999, were checked and allowed as a nonledger asset.

Book Value of Real Estate **$8,800**

The above amount represents the company's investment in real estate as of December 31, 1999. The company's real estate holdings consisted of the land and building occupied by the company.

The required documents supporting the validity of this investment were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

Agents' Balances or Uncollected Premiums **$**117,556

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days' past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Investment Income Due and Accrued **$6,349**

Interest due and accrued on the various assets of the company at December 31, 1999, consists of the following:

Cash Deposited at Interest	$1,151
Bonds	5,198
	$6,349

Reinsurance Recoverable on Paid Losses **$**723

The above asset represents recoveries due to the company from reinsurance on losses, which were paid on or prior to December 31, 1999. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$4,795**

The above asset represents the book value of computer equipment purchased to provide data processing. A review of year-end account and depreciation schedules verified this amount.

Fire Department Due Recoverable **$172**

This asset represents the balance of fire department dues overpayments recoverable at December 31, 1999. The examiners reviewed the company's fire department dues calculation and found the amount to be correctly calculated.

Reinsurance Commissions Recoverable **$44,073**

This asset represents the balance of reinsurance commission receivable from the reinsurer at December 31, 1999. A review of year-end accountings with the reinsurer, verified the balance of the asset.

Federal Income Taxes Refund Receivable **$700**

This receivable represents the balance refundable at year-end for federal income taxes incurred prior to December 31, 1999.

The examiners reviewed the company's 1999 tax return and CPA audit work papers to verify the accuracy of this receivable.

Equipment, Furniture, and Supplies **$**3,942

This asset consists of furniture and equipment owned by the company at December 31, 1999. In accordance with annual statement requirements, this amount has been deducted as an asset not admitted.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$47,117**

This liability represents losses incurred on or prior to December 31, 1999, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule. No adjustment was made to surplus for the difference due to immateriality.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$83,671	$87,351	$(3,681)
Less:			
Reinsurance recoverable on unpaid losses	36,019	40,337	(4,318)
Net unpaid losses	$47,652	$47,024	$ 637

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 1999. To the actual paid loss figures was added an estimated amount for those 1999 and prior losses remaining unpaid at the examination date, if any.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and a sampling of claims, which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$**650

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 1999, but which remained unpaid as of year-end. The liability is judgmentally determined by the company's CPA firm during their annual audit.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$**35,552

This liability represents commission due to agents on deferred premiums and contingent commissions due to agents as of year-end. The examiners review of the calculations for both types of commissions indicated that the amount was fairly stated.

Unearned Premiums **$327,939**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve is established on a daily pro rata basis. The examiners tested calculations of the company "Unearned Premium Report" and found the calculations to be reasonably stated. This reserve was established as follows:

Unearned Premium Report, as of 12/31/99	$ 394,709
Less:	
First Surplus	(46,841)
Quota Share	(130,135)
Add:	
Deferred Unearned Premium Reserve	110,206
Total Unearned Premium Reserve	$ 327,939

Reinsurance Payable **$81,929**

This liability consists of amounts due to the company's reinsurer at December 31, 1999, relating to transactions that occurred on or prior to that date.

Class A Liability December Premium	$11,000
Class B, First Surplus, December Premium	5,728
Quota Share, December Premium	18,500
Class C-2 and Class D/E December Premium	2,700
Deferred Reinsurance Payable	44,000
Total Reinsurance Payable	$81,929

The prior exam resulted in a recommendation that the company not include return commission due reinsurers as part of the reinsurance payable liability. The review of CPA workpapers and company records indicated that for the year under review there was no return commission due the reinsurer for 1999.

Amounts Withheld for the Account of Others **$**1,525

This liability represents employe payroll deductions in the possession of the company at December 31, 1999. Supporting documentation was reviewed and the amount appears reasonable.

Payroll Taxes Payable **$**889

This liability represents the company's portion of payroll taxes incurred prior to December 31, 1999, which had not yet been paid. Supporting documentation was reviewed and the amount appears reasonable.

Accounts Payable **$**892

This liability represents general expenses unpaid at December 31, 1999. Supporting records and subsequent cash disbursements verified this item.

Accrued Property Taxes **$584**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 1999. The examiners reviewed the company's 1999 tax return and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

Accrued Salaries and Wages **$1,600**

This liability represents the balance of employee wages payable at year-end, which incurred prior to December 31, 1999. Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **$4,450**

This liability represents the premiums received by December 31, 1999 that related to policies effective after year-end. Cash receipts were traced to policy data that was tested and recalculated to verify the accuracy of this liability.

V. CONCLUSION

The company's reported surplus increased in two of the past five years with 1998 reporting the most significant gain. Overall, surplus during the past five years decreased by an insignificant amount (less than 1%). Gross premiums written increased by 16% during the same period. However, net premiums written decreased by 10% primarily due to an increased ceding percentage in 1999. In an effort to retain more premium and decrease expenses, the company changed reinsurers.

The current examination resulted in two recommendations. One related to corporate records and one to the disaster recovery plan. The company complied with all of the prior examination recommendations.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - **Corporate Records**— Therefore, it is recommended that the company establish procedures that will enable the board of directors to routinely review investment transactions and that the minutes indicate that such discussion have taken place and whether the transactions were approved or disapproved.

2. Page 17 - **Disaster Recovery Plan-**It is recommended that the company develop a more comprehensive disaster recovery plan that would more clearly identify what would be done in cases where it is not able to access to its computers or the office building is destroyed.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Chistine Shan of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Eleanor Oppriecht
Examiner-in-Charge